

ORIGINAL



ASSOCIATION FOR LOCAL TELECOMMUNICATIONS SERVICES

EX PARTE OR LATE FILED

Jonathan Askin
General Counsel

December 19, 2000

Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

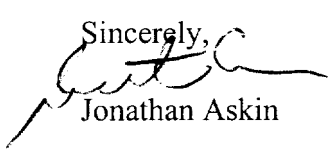
Re: CC Docket 99-68

Dear Secretary Salas:

Please include the attached written ex parte letter, filed on behalf of the the Association for Local Telecommunications Services, in the public file of the above-referenced proceeding.

If you have any questions, please contact Jonathan Askin at (202) 969-2597.

Sincerely,


Jonathan Askin

cc: Chairman Kennard
Commissioner Tristani
Commissioner Powell
Commissioner Furchtgott-Roth
Commissioner Ness
Dorothy Attwood
Glenn Reynolds
Jane Jackson
Tamara Preiss
Rodney McDonald
Kathy Brown
Anna Gomez
Jordan Goldstein
Rebecca Beynon
Deena Shetler
Kyle Dixon

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ASSOCIATION FOR LOCAL TELECOMMUNICATIONS SERVICES

Jonathan Askin
General Counsel

December 18, 2000

Ms. Dorothy Attwood
Chief, Common Carrier Bureau
Federal Communications Commission
445 12th St. SW
Washington DC 20554

Re: CC Docket No. 99-68

Dear Ms. Attwood:

The purpose of this letter is to respond to claims from the ILECs that the basic phase-down transition proposed by Chairman Kennard is not adequate to reduce the amount of reciprocal compensation currently paid by the incumbents.

The ILECs' most recent calculation of the effect of the proposed three-year transition plan is attached to Verizon's *ex parte* filed in this docket on December 13, 2000 (attached to this letter for your convenience). However, these numbers are completely unfounded for several basic reasons.

First, the ILECs' numbers are based upon preposterous and unsubstantiated growth assumptions for dial-up traffic usage per on-line household. As AT&T noted in its November 28th *ex parte* in this docket, the ILEC study assumes without citation a 30% compounded annual growth rate for dial-up traffic. But Merrill Lynch predicts only a 7% per year compounded growth rate for dial-up traffic per household from 1998 through 2003. Id.

Second, the ILECs' claim that individual households will somehow increase their usage annually by 30% is also contradicted by the fact that



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usage-intensive households are rapidly moving to broadband.¹ Indeed, Morgan Stanley Dean Witter initiated coverage of Genuity, a tier-one ISP, by predicting that dial-up penetration of American households will decline between 2000 and 2003 (August, 2000, page 25). And the recent demise of numerous free ISP services will further depress dial-up minutes over the next three years. Correcting for just some of these errors cuts the ILECs' reciprocal compensation estimates in half (AT&T ex parte filed November 28th filing at 4-5).

Applying the Chairman's proposed ratio approach to hard data for an individual CLEC reveals the truth. Time Warner Telecom (TWTC) has submitted data to the Bureau showing that the original proposal would impose a flash-cut reduction of its reciprocal compensation payments by 68%, 75%, and 86% in each of the three years.² Furthermore, the modified transition plan of the competitive industry being proposed today, which applies a reduced rate to above-ratio traffic, would still reduce Time Warner Telecom's reciprocal compensation revenues by 17%, 37%, and 64%.

Given that the New York Public Service Commission has already ruled that Time Warner Telecom should be exempted from application of the ratio plan adopted in that state in light of its robust local network, it is manifest that the modified transition proposed by the competitive industry will decrease the absolute amount of reciprocal compensation paid by the incumbents.

¹ Statistical Research, Inc.'s Fall 2000 Ownership Report shows that the percentage of online households using a cable modem or DSL connection has risen from 5 percent to 11 percent in the last six months. The proportion of online households accessing the Web via a shared phone line dropped 9 percent to 68 percent in the past six months, after staying at a consistent 75 percent from Spring 1998 through Spring 2000.

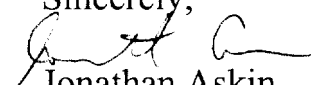
² TWTC serves a diverse customer base. For example, in October 2000, ISPs accounted for less than 4% of TWTC's nationwide customer base, 45% of which is terminating minutes that are ISP-related. Even with this small percentage of ISP customers, most TWTC service areas have traffic imbalances that legitimately exceed a 12:1 ratio.



ASSOCIATION FOR LOCAL TELECOMMUNICATIONS SERVICES

Please let us know if we can answer any other questions concerning this important matter.

Sincerely,



Jonathan Askin

cc: Glenn Reynolds
Jane Jackson
Tamara Preiss
Rodney McDonald
Kathy Brown
Anna Gomez
Jordan Goldstein
Rebecca Beynon
Deena Shetler
Kyle Dixon

W. Scott Randolph
Director - Regulatory Matters



December 13, 2000

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Ms. Magalie R. Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

Ex Parte: Intercarrier Compensation for ISP-Bound Traffic – CC Docket No. 99-68

Dear Ms. Salas,

On Tuesday, December 12, 2000, Susanne Guyer, Ed Shakin, Frank Gumper and myself, representing Verizon, met with Kyle Dixon of Commissioner Powell's office to discuss intercarrier compensation for ISP-bound traffic. We discussed the Commission's authority to impose a bill and keep regime for reciprocal compensation, as well as its authority to impose interim caps on traffic imbalances. The attached chart was used in the discussions to demonstrate how an interim cap should be set to produce real reductions in reciprocal compensation payments in the first year of the transition.

Pursuant to Section 1.1206(a)(1) of the Commission's rules, and original and one copy of this letter are being submitted to the Office of the Secretary. Please associate this notification with the record in the proceeding indicated above.

If you have any questions regarding this matter, please call me at (202) 463-5293.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Scott Randolph".

W. Scott Randolph
Director - Regulatory Matters

cc: Kyle Dixon

Potential Cost of Reciprocal Compensation for Terminating Internet Traffic

<i>Residential Internet Usage Forecasts</i>	1999	2000	2001	2002	2003	Avg. Ann. Growth
Total US Households (000s)	103,900	105,000	106,400	107,700	109,000	1.25%
U.S Online Households (000s)	43,600	47,300	51,400	56,900	62,500	9.73%
% Penetration	42%	45%	48%	53%	57%	
Avg Minutes of Access Per On-Line HH Per Day	63	82	106	138	179	30.00%
Avg Minutes of Access Per On-Line HH Per Year	22,888	29,754	38,681	50,285	65,370	
Total Internet Access Minutes – Residential	997,916,800,000	1,407,383,120,000	1,988,189,008,000	2,861,212,858,400	4,085,651,050,000	42.65%
% Broadband (xDSL, Cable modems, wireless)	4%	12%	20%	29%	36%	
% Dial Up	96%	88%	80%	71%	64%	
Dial Up Access Minutes	958,000,128,000	1,238,497,145,600	1,590,551,206,400	2,031,461,129,464	2,614,816,672,000	28.29%
% of Dial Up Internet Access Minutes That CLECs Terminate	40.0%	50.0%	57.0%	66.7%	66.7%	
Dial Up Internet Access Minutes Terminated by CLECs	383,200,051,200	619,248,572,800	906,614,187,648	1,354,306,065,335	1,744,082,720,224	41.22%

ILEC Reciprocal Compensation Liability Scenarios – With a Constant Recip Comp Rate of \$.004/Min.

Scenario 1: Cap That Produces Contant Recip Comp Payments

Cap on Terminating to Originating Minutes

Dial-Minutes that Qualify for Recip Comp Payments

Total Recip Comp Payments

	12:1	8:1	4:1
619,248,572,800	604,409,458,432	601,913,806,816	387,573,937,828
\$2,476,994,291	\$2,417,637,834	\$2,407,655,227	\$1,550,295,751

Scenario 2

Cap on Terminating to Originating Minutes

Dial-Minutes that Qualify for Recip Comp Payments

Total Recip Comp Payments

	6:1	4:1	2:1
619,248,572,800	302,204,729,216	300,956,903,408	193,786,968,914
\$2,476,994,291	\$1,208,818,917	\$1,203,827,614	\$775,147,876

Scenario 3

Cap on Terminating to Originating Minutes

Dial-Minutes that Qualify for Recip Comp Payments

Total Recip Comp Payments

	5:1	3:1	2:1
619,248,572,800	251,837,274,347	225,717,677,556	193,786,968,914
\$2,476,994,291	\$1,007,349,097	\$902,870,710	\$775,147,876

Scenario 4

Cap on Terminating to Originating Minutes

Dial-Minutes that Qualify for Recip Comp Payments

Total Recip Comp Payments

	4:1	2:1	Bill & Keep
619,248,572,800	201,469,819,477	150,478,451,704	0
\$2,476,994,291	\$805,879,278	\$601,913,807	\$0

Scenario 5

Cap on Terminating to Originating Minutes

Dial-Minutes that Qualify for Recip Comp Payments

Total Recip Comp Payments

	3:1	Bill & Keep	Bill & Keep
619,248,572,800	151,102,364,608	0	0
\$2,476,994,291	\$604,409,458	\$0	\$0

Sources:

Total US Households (000s)

U.S Online Households (000s)

Avg Minutes of Access Per On-Line HH Per Year

% Broadband (xDSL, Cable modems, wireless)

% of Dial Up Internet Access Minutes That CLECs Terminate

Sanford Bernstein & Co and McKinsey & Co., *Broadband!*, Jan. 2000

Sanford Bernstein & Co and McKinsey & Co., *Broadband!*, Jan. 2000

Nielsen 9/14/00 Press Release, Cahners 3/28/00 Press Release, Thomas Weisel Partners, *Media Metrix's July Internet Usage Trends*, 8/23/00

Dean Witter Morgan Stanley, *The Broadband Report Reaping What You Sow: ROI in the Broadband Market*, May 2000

ALTS Press Release

For Comparable Forecasts See Also:

U.S Online Households (000s)

% Broadband (xDSL, Cable modems, wireless)

Dean Witter Morgan Stanley, *The Broadband Report Reaping What You Sow: ROI in the Broadband Market*, May 2000

Hoak Breedlove Wesneski & Co., *The Last Race for the First Mile*, 8/2/00